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NIO/EUROPE

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DDCI/NIO Regional Meeting -- 22 January 1986

1. Yugoslavia

Yugoslavia's recent defiance of IMF mandated austerity standards is routed in a desire of practically all political leaders to position themselves favorably prior to the June Party Congress. Another impediment to Yugoslavia's continued cooperation with the IMF is its desire to burnish its nonaligned credentials before the NAM Summit next fall. Consequently, Yugoslavia is likely to be in a truculent mood vis-a-vis its creditors and the West as a whole through at least the end of the fall.

The upcoming political season will be very hard on those who agreed to the "stabilization" effort of the past three years.

- Despite three years of austerity Belgrade has not lowered the \$19 billion foreign debt nor has it fulfilled a promise to lead an economic recovery through reforms.
- Inflation set a post-war record of 80 per cent in 1985, cut into consumption, and depressed the standard of living which lead to a doubling in the number of strikes over 1984.
- Tensions between ethnic groups and regions are up -- as are warnings from the military that civilian leaders must do a better job to safeguard the system and revive the economy.

The easy way out being taken by political leaders is to promise a return to the good old days of fast growth by loosening market-style restraints.

- Growth targets set for 1986 project illusory increases in real income, industrial growth and an easing on investment restrictions.
- In December, Yugoslavia unilaterally softened the IMF requirement that it gradually implement real interest rates.
- Branko Mikulic from Bosnia is the new Premier-designate. He has condemned Belgrade's compromises with creditors -- especially those that interfere with the Yugoslav Socialist system.

Yugoslavia's temporizing and backsliding, of course, only hinder any eventual economic recovery. In these circumstances the party congress will be an important indicator of whether Yugoslavia's collective leadership will ever acquire a sense of decisiveness.